

Message Text

CONFIDENTIAL

PAGE 01 NEW DE 03490 132032Z

70

ACTION NEA-12

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-04 USIA-15 PRS-01 AGR-20 EUR-25 L-03

NIC-01 DRC-01 /196 W

----- 086459

P 131300Z MAR 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 0219

C O N F I D E N T I A L NEW DELHI 3490

E.O. 11652: GDS

TAGS: EFIN EAID PFOR XH IN

SUBJ: EMBASSY COMMENTS ON CBRD STAFF WORKING PAPER ON
AID AND DEBT: THE ROLE OF NON-CONSORTIUM COUNTRIES

SUMMARY: THE SECTION OF THE BANK'S PAPER RELATING TO AID AND TRADE RELATIONS WITH EASTERN EUROPE SUFFERS FROM THE SAME SORT OF DEFICIENT ANALYSIS AS WAS FOUND TO CHARACTERIZE OTHER PARTS OF THE BANK'S PAPER. TO THIS IT ADDS SOME WISHFUL THINKING ABOUT THE PROBABLE FUTURE RESOURCE TRANSFER BALANCE. WE RECOMMEND WE CONTINUE TO PRESS FOR MEANINGFUL ACTION THAT WILL PRODUCE A REAL FLOW OF RESOURCES FROM EASTERN EUROPEAN COUNTRIES TO INDIA. END SUMMARY.

1. COMPARISON BETWEEN INDIA'S ECONOMIC RELATIONS WITH EASTERN EUROPEAN (EE) AND CONSORTIUM COUNTRIES IS NOT AS DIFFICULT AS THE BANK ASSUMES. ONE CAN GET BEHIND THE MODALITIES OF TRADE AND PAYMENTS ARRANGEMENTS, AND COMPARE THE PERFORMANCE OF THE TWO AREAS IN TRANSFERRING RESOURCES TO INDIA. ON THIS BASIS, WHETHER ONE USES THE APPROACH UTILIZED BY THE BANK'S PAPER, WHICH WE FIND RATHER AWKWARD, OR THE EMBASSY'S APPROACH (NEW DELHI'S A-393 OF NOV 3, 1973) ONE MUST CONCLUDE THAT THERE HAS BEEN A
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NEW DE 03490 132032Z

NEGATIVE FLOW OF RESOURCES TO INDIA FROM EE IN RECENT YEARS OF

LARGE AND RAPIDLY GROWING PROPOSITIONS.

2. BY FOCUSING ON "IMPORT CAPABILITY" GENERATED BY INDIAN EXPORTS TO THE BLOC RATHER THAN ON ACTUAL RESOURCE TRANSFER, THE BANK PAPER OBFUSCATES A CENTRAL ISSUE: WHETHER OR NOT INDIA IS ACCUMULATING UNUSABLE CLAIMS ON BLOC RESOURCES. DATA ASSEMBLED BY THE EMBASSY SUGGEST THAT ONLY RELATIVELY LARGE MILITARY DELIVERIES IN PERIOD 1961-69 MAINTAINED A NET RESOURCE FLOW TO INDIA. IN IFY 1969/70 AND 70/71 THE NET FLOW GREW VERY SMALL AND IN 71/72 AND 72/73 THE NET FLOWS WERE NEGATIVE AND LARGE, IN THE NEIGHBORHOOD OF -\$60 AND -\$200 MILLION, RESPECTIVELY. WE JUST DON'T UNDERSTAND THE BANK PAPER'S ASSERTION THAT "THERE IS NO EVIDENCE THAT INDIA HAS BEEN ACCUMULATING A GROWING UNUSABLE CLAIM ON EASTERN EUROPE." THE 2 MILLION TONS OF SOVIET GRAIN REACHING INDIA IN 1973/74 AND 74/75 WILL TEMPORARILY IMPROVE THE RESOURCE FLOW PICTURE BY ADDING \$400 MILLION OR SO OF REAL RESOURCES TO THE FLOW IN THOSE TWO YEARS.

3. WHAT HAPPENS NEXT, HOWEVER, IS MOOT, BUT IT JUST DOES NOT SEEM SENSIBLE TO EXPECT, AS THE BANK DOES, THAT INDIAN IMPORTS OF BLOC GOODS ARE GOING TO RISE FROM \$281 MILLION IN 1972/73 TO \$735 MILLION - APART FROM WHEAT IMPORTS - IN 1974/75, AND \$981 MILLION BY 1978/79.

4. WE SERIOUSLY DISPUTE THAT THERE HAS BEEN ANY REAL INDICATION THAT EE COUNTRIES ARE PREPARED TO GREATLY EXPAND DELIVERIES OF THE TYPES OF GOODS INDIA WANTS AND THAT THE NEGATIVE RESOURCE FLOW OF IFY 1972 AND 1973 WILL GIVE WAY TO A POSITIVE NET TRANSFER OF \$675 MILLION OVER THE NEXT FIVE YEARS. THIS WOULD REQUIRE A TURNAROUND IN TRADE BALANCE OF MORE THAN \$300 MILLION PER YEAR (USING IFY 72/73 AS A BASE) AND A HITHERTO UNDEMONSTRATED WILLINGNESS OR ABILITY OF EE COUNTRIES TO FURNISH KEY COMMODITIES SUCH AS NEWSPRINT, PETROLEUM AND FERTILIZER IN INCREASED QUANTITIES AND AT COMPETITIVE PRICES. ALL EVIDENCE SO FAR IS TO THE CONTRARY, E.G., CRUDE WAS NOT FURNISHED INDIA AND SUPPLIES OF KEY COMMODITIES WERE IN NO CASE INCREASED TO LEVELS REQUESTED BY INDIA WHILE PRICES WERE SHARPLY INCREASED. THE PAPER'S ASSERTION THAT SINCE INDIA HAS SHARPLY INCREASED ITS EXPORTS TO EE COUNTRIES THIS TRADE MUST HAVE BEEN "PROFITABLE" IS NAIVE AT BEST. PROCEEDING FROM THAT TO SNIPE AT THE CONSORTIUM WITH THE DUBIOUS CONTRAST "THERE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 NEW DE 03490 132032Z

IS NO HARD EVIDENCE THAT CONSORTIUM COUNTRIES HAVE DISCRIMINATED AGAINST INDIA'S EXPORTS" IS UNWARRANTED.

5. THE PAPER CORRECTLY CONCLUDES THAT THE CONSORTIUM SHOULD NOT FOCUS ON DEBT RELIEF WITH NON-CONSORTIUM COUNTRIES BUT RATHER ON OBTAINING AN INCREASE IN THE "VOLUME OF AID". HOWEVER, IT IS IMPORTANT THAT THE AID NOT BE MERELY NUMBERS ON PAPER: LONG STANDING EXISTING LINES OF CREDIT EXCEED \$500 MILLION AND

DRAWDOWNS IN RECENT YEARS HAVE BEEN NEGLIGIBLE. WHILE THE BANK MAY BELIEVE IT IS SUFFICIENT THAT THE GOI IS "FULLY AWARE" OF THE PROBLEM AND THAT EE COUNTRIES "ARE DISPOSED TO MOVE IN THE APPROPRIATE DIRECTIONS", ON THE BASIS OF THE RECORD THIS APPEARS LITTLE MORE THAN HOT AIR. THE ESSENTIAL MISMATCH OF ECONOMIES BETWEEN EE COUNTRIES AND INDIA, AS WELL AS THE FORMER'S UNWILLINGNESS TO SUPPLY ON A LARGE SCALE GOODS WHICH THEY CAN SELL IN HARD CURRENCY MARKETS REMAINS A CENTRAL FEATURE OF INDO-BLOC AID AND TRADE RELATIONS. IT IS RECOMMENDED THAT THE USDEL:

1. DRAWING ON THE ABOVE AND NEW DELHI'S A-393, CHALLENGE THE FACTURAL BASIS FOR THE BANK'S CONCLUSIONS;

2.STATE THAT THERE IS NO POSITIVE EVIDENCE THAT EE COUNTRIES ARE PREPARED TO OFFER EITHER DEBT RELIEF (WHICH THE SOVIET UNION APPARENTLY REJECTED DURING THE BREZHNEV VISIT) OR TO INCREASE THE FLOW OF GOODS TO INDIA TO AN EXTENT THAT WOULD RESULT IN A CONSISTENTLY POSITIVE FLOW OF RESOURCES;

3. STATE THAT UNTIL SUCH A POSITIVE INFLOW OF RESOURCES TAKES PLACE, OR INDIAN EXPORTS ARE DIVERTED TO HARD CURRENCY MARKETS, INDIA'S CASE FOR BALANCE OF PAYMENTS RELIEF FROM CONSORTIUM COUNTRIES IS INEQUITABLE.
SCHNEIDER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE, FOREIGN ASSISTANCE, FOREIGN TRADE, DEBT REPAYMENTS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE03490
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740347/aaaabruz.tel
Line Count: 140
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 14 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14-Aug-2002 by shawdg>; APPROVED <09 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EMBASSY COMMENTS ON CBRD STAFF WORKING PAPER ON AID AND DEBT: THE ROLE OF NON-CONSORTIUM COUNTRIES
TAGS: EFIN, EAID, PFOR, XH, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005